ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF PERU UTILITIES ELECTRIC DEPARTMENT FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES	))))	CAUSE NO. 43200 APPROVED: JUN 13 2007

BY THE COMMISSION:
David E. Ziegner, Commissioner
Abby R. Gray, Administrative Law Judge

On December 22, 2006, the City of Peru, Indiana, by its municipal electric utility ("Petitioner" or "Peru") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for authority to increase its rates and charges for electric utility service and for approval of a new schedule of rates and charges applicable thereto. Pursuant to notice given, a Prehearing Conference was held on February 1, 2007 at 11:00 a.m. in Room E306 of the Indiana Government Center South ("IGCS"), Indianapolis, Indiana. Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") attended the Prehearing Conference. No members of the general public attended. On February 1, 2007, Petitioner filed the direct testimony and exhibits constituting its case-in-chief. The Commission issued a Prehearing Conference Order on February 14, 2007, in which it established dates for the prefiling of testimony and exhibits by the parties and the hearing of evidence.

On April 11, 2007, the OUCC filed a Notice of Settlement indicating that the Petitioner and OUCC reached an agreement to settle this case, and that in lieu of pre-filing its direct testimony, the OUCC would file testimony and schedules in support of the settlement. On April 24, 2007, the presiding Officers issued a docket entry requesting answers to certain clarifying questions, which Petitioner responded to on April 26, 2007. Petitioner and the OUCC filed a Joint Stipulation and Agreement, together with supporting exhibits (the "Settlement Agreement") on April 25, 2007. Also on April 25, 2007, the OUCC filed testimony and evidence in support of the Settlement Agreement.

Pursuant to notice duly published as required by law, a settlement hearing was held in this Cause on May 2, 2007, at 10:00 a.m. in Room E-306 of the IGCS, Indianapolis, Indiana. Petitioner, the OUCC and staff members of the Commission attended the settlement hearing. No members of the general public appeared or were present at the hearing.

Petitioner offered into evidence the direct testimony and exhibits of its General Manager and CEO, Roger Merriman and Scott A. Miller, C.P.A., a Certified Public Accountant and a principal in the firm of H.J. Umbaugh & Associates, Certified Public Accountants, LLP. Petitioner and the OUCC offered into evidence Joint Exhibit 1, which consisted of the Settlement Agreement, with supporting exhibits, and Joint Settlement Exhibit 3, a form of proposed order for the Commission's consideration. The OUCC offered into evidence the testimony and exhibits of Wes Blakley in support of the Settlement Agreement.

Based upon the applicable law and the evidence herein and being duly advised, the Commission now finds as follows:

1. **Statutory Notice and Commission Jurisdiction**. Due, legal and timely notice of the public hearings conducted by the Commission in this Cause was given and published as required by law. The City of Peru, Indiana is a municipality, owning and operating its own electric utility. Petitioner is a "municipally-owned utility" within the meaning of the Public Service Commission Act, as amended. Petitioner is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission, therefore, has jurisdiction over the parties and the subject matter of this Cause.

2. **Petitioner's Characteristics**. Petitioner is authorized to and is engaged in the furnishing of electricity to residential, commercial, industrial and other customers located within its assigned service area. Petitioner owns and operates electric transmission, distribution, substation and power production facilities, including a coal-fired electric generating plant with a capacity of 33 MW, which facilities are used and useful in providing adequate and reliable service to its approximately 10,944 customers. The City of Peru, Indiana is a member of the Indiana Municipal Power Agency ("the Agency") and Petitioner dedicates the entire output and capacity of its coal-fired generating unit to the Agency under a Capacity Purchase Agreement. Petitioner purchases all of its power and energy requirements from the Agency, pursuant to the terms of a Power Sales Contract. Petitioner's current schedule of rates and charges was placed into effect following the Commission's Order in Cause No. 39357 (Order dated June 3, 1992, as amended by Nunc Pro Tunc Order dated June 24, 1992).

3. **Relief Requested and Proposed Settlement**. In its case-in-chief, Petitioner requested approval to increase its rates and charges for electric service to recover the statutory revenue requirements enumerated in I.C. 8-1.5-3-8, including a return on rate base. Peru proposed to implement the revised rates and charges in two phases. In Phase I, Peru proposed to implement a 5.15% across-the-board increase in its present rates and charges, which would become effective immediately upon the Commission's approval of the proposed rate increase. The Phase II rates would take effect one year after the implementation of the Phase I rates, and represent an approximate 4.9% increase over the Phase I rates and charges (a combined 10.3% across-the-board increase in present rates and charges).

Pursuant to negotiations with the OUCC, Petitioner agreed to a combined Phase I and Phase II increase in pro forma operating revenues from retail sales of $1,465,796, representing a 9.03% across-the-board increase in rates and charges (Joint Settlement Exhibit 1). The parties agreed that during Phase I, Petitioner would implement a 5.15% across-the-board increase in its present rates and charges, but the Phase II increase to Petitioner's Phase I rates and charges would be 3.69%, rather than 4.9% as Petitioner originally proposed.

4. **Test Period**. The test period selected for determining Petitioner's revenues and expenses reasonably incurred in providing electric utility service to its customers was the twelve months ended March 31, 2006. With adjustments for changes that are fixed, known and

measurable, we find this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. **Operating Revenue**. The OUCC and the Petitioner agree that Petitioner's pro forma operating revenues for the test period were $16,227,508 (Joint Settlement Exhibit 1).

6. **Petitioner's Revenue Requirement**. Indiana Code 8-1.5-3-8 establishes the revenue requirement elements which this Commission must apply in determining reasonable and just rates and charges for a municipally-owned utility. Certain of the elements are cash revenue requirements, which Petitioner would need to pay as legal and other necessary expenses incident to the operation of its electric utility. These elements are:

(a) maintenance costs, operating charges, including the cost of purchased power, upkeep and repairs;
(b) taxes, including payments in lieu of taxes;
(c) interest charges on bonds or other obligations, including leases;
(d) a sinking fund for the liquidation of bonds or other obligations, including leases;
(e) revenue needed to "provide adequate money for working capital;" and
(f) adequate money for making extensions and replacements to the extent not provided for through depreciation expense.

It is the stated intention of I.C. 8-1.5-3-8 that rates and charges produce an income sufficient to maintain a municipally-owned utility's property in a sound physical and financial condition to render adequate and efficient service. Rates and charges that are too low to meet the foregoing requirements are unlawful. Petitioner's municipal legislative body also elected to include a reasonable return on the utility plant of the electric utility in accordance with I.C. 8-1.5-3-8(f).

As noted above, the parties have agreed to the level of Petitioner's annual revenue requirements, which are reflected in Joint Settlement Exhibit 1 and summarized below.

Based on the evidence, we now make the following findings on Petitioner's revenue requirements:

a. **Cost of Purchased Power**. The Petitioner and the OUCC agreed to an amount which Petitioner should use for its pro forma purchased power cost. We find that $8,879,418 (Joint Settlement Exhibit 1) is reasonable and supported by the evidence and should be used as the cost of purchased power.

b. **Other Operating and Maintenance Expenses.** The Petitioner and the OUCC agreed to pro forma other operation and maintenance expenses, including taxes other than income taxes, of $6,419,980 (Joint Settlement Exhibit 1). We find that the amount of such other operation and maintenance expenses are reasonable and supported by the evidence.

c. **Payment in Lieu of Taxes.** Petitioner and the OUCC agreed that Petitioner's revenue requirement for payments in lieu of taxes is $230,495 (Joint Settlement Exhibit 1). We find this amount to be reasonable and supported by the evidence.

d. **Depreciation Expense.** Petitioner and the OUCC agreed that Petitioner's revenue requirement for depreciation expense (extensions and replacements) is $1,466,484 (Joint Settlement Exhibit 1). We find this amount to be reasonable and supported by the evidence.

e. **Return on Net Plant**. Petitioner and the OUCC agreed that Petitioner's annual revenue requirement based upon a reasonable return on net plant is $960,000, which represents a 5.76% return on Petitioner's net plant in service (Joint Settlement Exhibit 1; Schedule 3). We find this amount to be reasonable and supported by the evidence.

f. **Non-Operating Revenue**. Petitioner and the OUCC agreed that Petitioner will earn approximately $283,594 in adjusted, non-operating revenue per year (Joint Settlement Exhibit 1) and that such amount should be used as an offset to Petitioner's annual revenue requirements. We find this amount to be reasonable and supported by the evidence.

g. **Utilities Receipts Tax**. Petitioner and the OUCC have agreed that Petitioner's cash revenue requirements should be increased by $20,521 to account for Indiana Utility Receipts Tax resulting from the annual increase in operating revenues.

h. **Annual Revenue Requirements**. Based upon our findings above, we find that Petitioner's annual net revenue requirement is $17,693,304, as detailed below:

Cost of Purchased Power	$8,879,418
Other Operation and Maintenance Expense	6,419,980
Payment in Lieu of Taxes	230,495
Depreciation	1,466,484
Return on Plant	960,000
Total Revenue Requirement	$17,956,377
Less: Non-Operating Revenue	($283,594)
Plus: Utility Receipts Tax (1.4% of increase)	$20,521
Net Revenue Requirements	$17,693,304

Based upon the evidence submitted, we find Petitioner's current rates and charges, which produce annual operating revenues of $16,227,508, are insufficient to provide for Petitioner's annual cash revenue requirements and are, therefore, unreasonable and unlawful.

7. **Authorized Rates**. Petitioner's current rates and charges for retail electric service should be increased so as to produce additional operating revenues of $1,465,796, representing a 9.03% increase in Petitioner's annual revenues from retail rates and charges, as shown in Joint Settlement Exhibit 1.

8. **Phase-in of Rates**. The Settlement Agreement provides that the aggregate increase in rates and charges should be implemented in two phases. The Commission finds the

proposed phase-in of the increase in Petitioner's rates and charges is reasonable. Upon the issuance of this Order, Petitioner is authorized to file with the Commission a new schedule of rates and charges implementing Phase I of the rate increase, which will produce additional annual operating revenues from retail sales of approximately $835,716 and represent a 5.15% across-the-board increase in Petitioner's present rates and charges. Petitioner is authorized to increase its rates and charges to produce additional annual operating revenues from retail sales of approximately $630,080 one year following the issuance of this Order, representing a 3.69% increase over Phase I rates and charges. Following the implementation of the Phase II increase, Petitioner's rates and charges should produce additional operating revenues from retail sales of approximately $1,465,796 and represent a total of 9.03% across-the-board increase in present rates and charges. A schedule of Peru's present and agreed-upon Phase I and Phase II rates was attached to the Settlement Agreement as Joint Settlement Exhibit 2.

9. **Cost of Service Study.** In the Settlement Agreement, the parties agree that Peru will submit a cost of service study as part of its next general rate case. The cost of service study will show the relative rates of return provided by each customer class and Peru will make a proposal with respect to allocating costs to produce a set of rates and charges based on the cost of service study by customer class. However, the Settlement Agreement provides that Peru will not be required to set rates and charges based on the results of the cost of service study, but may make recommendations as to the allocation of the proposed revenue requirement so that the reductions in any subsidy/excess revenues between customer classes are prudent, avoid rate shock to any particular customer class, and are consistent with the principles of "gradualism" in moving toward cost of service based rates. The OUCC also reserved the right to comment on and/or make recommendations regarding both the new cost of service study and any proposed allocation of the revenue requirement.

10. **Settlement Agreement.** The Settlement Agreement states the parties agree that the terms and conditions set forth therein represent a fair, reasonable and just resolution of all the issues in this Cause. The Settlement Agreement further provides that it shall not be construed nor be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or before any court of competent jurisdiction on these particular issues.

After reviewing the terms of the parties' Settlement Agreement, we find it is reasonable, that the terms of the Settlement Agreement are in the public interest, and that it represents a desirable and lawful resolution of the matters at issue in this proceeding. Therefore, we find that the Settlement Agreement should be approved in its entirety, without change.

With regard to future use, citation, or precedent of the Settlement Agreement, we find our approval of the terms of the Settlement Agreement should be construed in a manner consistent with our finding in Re Richmond Power & Light, Cause No. 40434, Order dated March 19, 1997.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement, a copy of which is attached to this Order, shall be and hereby is approved in its entirety, consistent with the findings herein. The terms and conditions thereof shall be and hereby are incorporated herein as part of this Order.

2. Petitioner is hereby authorized to increase its annual revenue from retail rates and charges by $1,465,796, so as to produce total annual operating revenue of $17,693,304, representing an approximate 9.03% increase in its rates and charges for the sale of electricity to retail customers, as shown in Joint Settlement Exhibit 1.

3. Petitioner's rate increase is to be implemented in two phases, as set forth in Finding No. 8.

4. Petitioner shall file with the Electricity Division of the Commission new schedules of rates and charges before placing in effect the rate increase authorized herein, which schedules, when approved by the Electricity Division, shall be effective and shall cancel all previously approved schedules of rates and charges in conflict therewith.

5. Petitioner shall submit a cost of service study as part of its next general rate case filed with the Commission.

6. Petitioner shall pay the following itemized charges within twenty (20) days from the date of this Order to the Secretary of the Commission:

Commission Charges	$2,056.30
OUCC Charges	6,172.86
TOTAL	$8,229.16

7. This Order shall be effective on and after the date of its approval.

HARDY, LANDIS, SERVER AND ZIEGNER CONCUR; GOLC ABSENT:
APPROVED: JUN 13 2007

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission

OFFICIAL EXHIBITS

FILED

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INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF PERU UTILITIES ELECTRIC DEPARTMENT FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES	))))	**CAUSE NO. 43200**

IURC JOINT EXHIBIT No. JS

5-2-07 AT

DATE REPORTER

JOINT STIPULATION AND AGREEMENT BETWEEN THE CITY OF PERU AND <u>THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR</u>

On December 22, 2006, the City of Peru, Indiana, by its municipal electric utility ("Peru"), filed with the Indiana Utility Regulatory Commission ("Commission") its Verified Petition for authority to increase its rates and charges for electric utility service, and for approval of a new schedule of rates and charges applicable thereto. Prior to the settlement hearing in this Cause, Peru and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively the "Parties") communicated with each other regarding the possibility of settling this Cause. The OUCC reviewed Peru's case-in-chief, its supporting work papers, and visited Peru's offices for informal discovery. Thereafter, the OUCC provided Peru with a set of accounting schedules showing its proposed adjustments to certain of the revenue requirements presented in this Cause. Following review of those schedules and negotiations between the Parties, the Parties reached an agreement with respect to all the issues presently before the Commission. The Parties agree to the following matters and request the Commission to enter the proposed final Order which is attached hereto as Joint Settlement Exhibit 3.

1. Peru's Operating Revenues. The Parties have reached an agreement concerning the revenue requirements for Peru under IC 8-1.5-3-8, which agreement is reflected in the accounting schedules attached as Joint Settlement Exhibit 1. The Parties agree that Peru's total test year operating revenues are $15,819,985 and that certain adjusted, non-operating revenues for the test year in the amount of $283,594 should be deducted in determining the net amount of revenues to be recovered by rates and charges for electric service. The Parties also agree to certain additional adjustments to test year operating revenues and that Peru's pro forma operating revenues for the test year are $16,227,508. As shown on Joint Settlement Exhibit 1, the Parties agree that Peru's pro forma operating revenues from retail sales should be increased by $1,465,796 in arriving at the pro forma total operating revenues at proposed rates of $17,693,304, representing a 9.03% increase in rates and charges from sales to retail customers.

2. Peru's Annual Revenue Requirements. Peru's annual revenue requirements determined pursuant to IC 8-1.5-3-8 on the evidence of record and agreed to by the Parties, are as follows:

a. Cost of Purchased Power. Peru's annual revenue requirement for the cost of purchased power is $8,879,418.

b. Other Operating and Maintenance Expenses. Peru's annual revenue requirement for other operating and maintenance expenses, including taxes other than income taxes, is $6,419,980.

c. Payment in Lieu of Taxes. Peru's annual revenue requirement for payment in lieu of taxes is $230,495.

d. Depreciation Expense. Peru's annual revenue requirement for depreciation expense is $1,466,484.

e. Return on Plant. Peru's annual revenue requirement for a reasonable return on net plant is $960,000.

f. Non-Operating Revenue. The Parties agree that Peru's total cash revenue requirement should be offset by the amount of Peru's adjusted, non-operating revenues in the amount of $283,594.

g. Utility Receipts Tax. The Parties agree that Peru's total cash revenue requirement should be increased by $20,521 to account for the increase in Peru's Indiana Utility Receipts Tax resulting from the proposed rate increase.

3. Peru's Aggregate Annual Revenue Requirement. Peru's annual net revenue requirement is $17,693,304, as detailed below:

Cost of Purchased Power	$8,879,418
Other Operation and Maintenance Expense	6,419,980
Payment in Lieu of Taxes	230,495
Depreciation	1,466,484
Return on Plant	960,000
Total Revenue Requirement	$17,956,377
Less: Non-Operating Revenues	($283,594)
Plus: Utility Receipts Tax (1.4% of increase)	$20,521
Net Revenue Requirement	$17,693,304

4. Amount of Stipulated Rate Increase and Approval of Changes to Rate Schedules. The Parties agree that Peru's current rates and charges for electric service should be increased so as to produce additional operating revenues from retail sales of $1,465,796 and total pro forma operating revenues of $17,693,304, representing a 9.03% across-the-board increase in rates and charges, as shown in Joint Settlement Exhibit 1.

5. Phase-in of Rates. For the reasons set forth in Peru's direct testimony and exhibits, the Parties agree that the agreed-upon aggregate increase in annual revenues from rates and charges from retail sales will be implemented in two phases. Upon the Commission's adoption of a final order approving the terms and conditions of this Joint Stipulation and Agreement (the "Settlement Agreement"), Peru will implement an increase in its retail rates and charges to produce additional annual operating revenues from retail sales of approximately $835,716, representing a 5.15% across-the-board increase in rates and charges. One year after the Commission's approval of a final order approving the terms and conditions of this Settlement Agreement, Peru will file its Phase II rates and charges which increase its retail rates and charges to produce additional annual operating revenues from retail sales of approximately $630,080, representing an approximate 3.69% across-the-board increase in rates and charges over the Phase I rates and charges. Following the implementation of the Phase II increase, Peru's rates and charges should produce additional operating revenues from retail sales of approximately $1,465,796, representing a combined 9.03% across-the-board increase in present rates and charges. A schedule of Peru's present and agreed-upon Phase I and Phase II rates is attached as Joint Settlement Exhibit 2.

6. Admission of Evidence. The OUCC stipulates to the admission into evidence of Peru's prefiled testimony and exhibits, and waives cross-examination of Peru's witnesses. Peru stipulates to the admission into evidence of the OUCC's testimony in support of the Settlement Agreement, and waives cross-examination of the OUCC's witness. The Parties will jointly sponsor this Settlement Agreement and Joint Settlement Exhibits 1 through 3 at the May 2, 2007 settlement hearing.

7. Cost of Service Study. Peru agrees to prepare and submit a cost of service study as part of its next general rate case. The cost of service study will show the relative rates of return provided by each customer class and Peru will make a proposal with respect to allocating costs to produce a set of rates and charges based on the cost of service study by customer class. However, Peru will not be required to set rates and charges based on the results of the cost of service study, but may make recommendations as to the allocation of the proposed revenue requirement so that the reductions in any subsidy/excess revenues between customer classes are prudent, avoid rate shock to any particular customer class, and are consistent with the principles of "gradualism" in moving toward cost of service based rates. The OUCC also reserves the right to comment on and/or make recommendations regarding both the new cost of service study and any proposed allocation of the revenue requirement.

8. Mutual Conditions on Settlement Agreement. Peru and the OUCC agree for purposes of establishing new rates and charges for Peru that the terms and conditions set forth in this Settlement Agreement are supported by the evidence and based on the Parties' independent review of the evidence, represent a fair, reasonable and just resolution of all the issues in this Cause, subject to their incorporation in a Final Order without modification or further condition, which may be unacceptable to either party. If the Commission does not approve this Settlement Agreement in its entirety and incorporate it into a Final Order as provided above, it shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties. Peru and the OUCC represent that there are no other agreements in existence between them relating to the matters covered by this Settlement Agreement.

9. Non-Precedential. As a condition precedent to the Settlement Agreement, the Parties condition their agreement on the Commission providing assurance in the Final Order issued herein that it is not the Commission's intent to allow this Settlement Agreement or the Order approving it to be used as an admission or as a precedent against the signatories hereto except to the extent necessary to enforce the terms of the Settlement Agreement. The Parties agree that this Settlement Agreement shall not be construed nor be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or before any court of competent jurisdiction on these particular issues. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein is without prejudice to and shall not constitute a waiver of any position that either of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by the Commission, shall not be admissible in any subsequent proceedings.

10. Authority to Stipulate. The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients who will be bound thereby.

Respectfully submitted,

Dated: April 25, 2007

CITY OF PERU, INDIANA

By: Michael B. Cracraft,
Attorney for the City of Peru

Dated: April 25, 2007

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

By: Jeffrey Reed
Its Attorney